

Top Secret

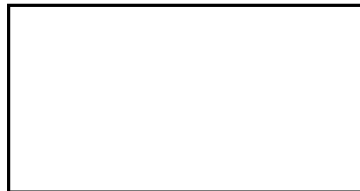
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NATIONAL INTELLIGENCE DAILY CABLE

Tuesday 27 June 1978

CG NIDC 78/149C



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NATIONAL SECURITY INFORMATION
Unauthorized Disclosure Subject to Criminal Sanctions

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National Intelligence Daily Cable for Tuesday, 27 June 1978.

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The NID Cable is for the purpose of informing senior US officials.

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ICELAND: Election Results

[Redacted] Dissatisfaction with the economic program of Prime Minister Hallgrimsson's government was apparently the main reason for the success of the left in Sunday's parliamentary election in Iceland. No party won a majority, and several weeks of negotiations may be required before a new government is formed. In the meantime, the Hallgrimsson cabinet remains in office on a caretaker basis. The moderately leftist Social Democrats, who made a striking comeback from their poor performance in the national election four years ago, appear likely to play a prominent role in a new coalition government because they could work with the parties of either the right or the left.

[Redacted] Repeating the left's strong showing in local elections held last month, both the Social Democrats and the People's Alliance, Iceland's Communist party, substantially increased

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their parliamentary strength. The governing coalition parties--Hallgrimsson's conservative Independence Party and the centrist Progressive Party--each lost five seats.

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[] The Progressives are interpreting the outcome to mean that their backers do not favor the party's participation in a conservative-dominated government. This apparently means that Hallgrimsson's two-party coalition will not be re-formed, even though the two parties together would still have a parliamentary majority. The Progressives have joined leftist coalitions in the past and may be asked to do so again.

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[] The key to the formation of a new government appears to be the Social Democrats, who increased their parliamentary strength by nine seats to a total of 14 in the 60-seat parliament. The party could either join a coalition dominated by the Independence Party or help form a government of the left.

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[] The Social Democrats will negotiate carefully with both sides, and formation of a government could take weeks. The party was in coalition with the Independence Party in the 1960s, but in the process it lost many of its leftist members. Joining with the Communists would be difficult because of differences over defense policy, particularly Iceland's membership in NATO. []

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PAKISTAN: Movement to Nonaligned

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[] Pakistan may be taking the first steps toward disengaging from the Western-sponsored Central Treaty Organization and moving toward the nonaligned camp. The Pakistanis have been disappointed with the CENTO alliance for years because, in their view, it has not paid off in terms of aid against India. More recently they have also become uneasy--especially since the leftist coup in Afghanistan--about growing Soviet pressure on them to withdraw from CENTO.

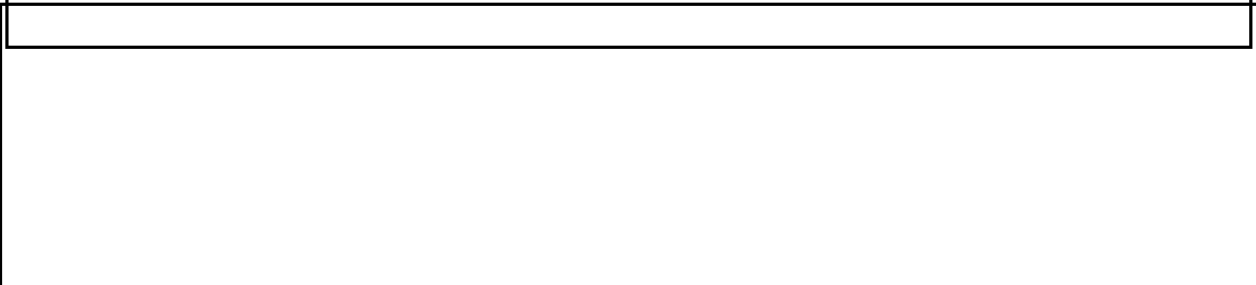
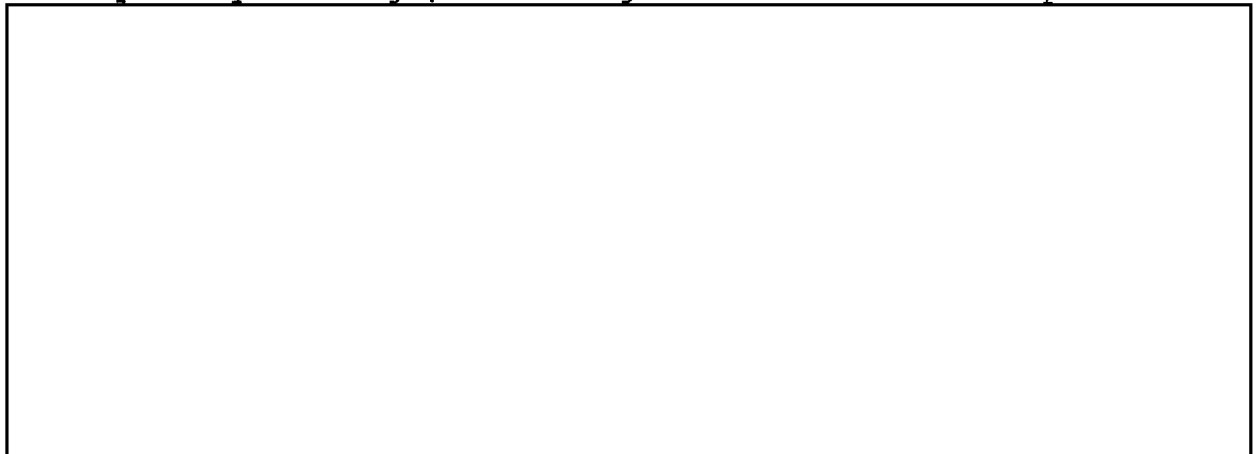
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[] Pakistan will apply for guest status at the conference of nonaligned foreign ministers in Belgrade next month, according to an announcement on Pakistani radio. If the application is accepted, Pakistan would be participating at a non-aligned meeting for the first time.

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[REDACTED] The difference between an observer and a guest is vague. Neither can participate with full-fledged members in drafting and working groups. Observers can make statements at general meetings, but guests occasionally have also been permitted to do so. Both observers and guests are allowed to attend plenary meetings, including those closed to the press.



[REDACTED] The Pakistanis have viewed their involvement in CENTO ambiguously for many years. Military support against India--the

primary reason for Pakistan's adherence to the pact that originally created the organization in 1954--has not been forthcoming, at least in the quantities desired. Future US economic as well as military assistance is uncertain as a result of the present bilateral controversy over Pakistan's purchase of a French plant for reprocessing plutonium.

Previous threats by governments in Islamabad to leave CENTO, however, have never been carried out, partly because of fear of jeopardizing future aid from Washington and Tehran. The Pakistanis probably would also encounter a negative reaction from China, which has been their major source of military assistance over the past dozen years and is a supporter of regional organizations that oppose the Soviets.

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TURKEY: Debt Refinancing Delay

25X1 [] Short-term debt refinancing agreements between Turkey and private foreign banks--amounting to \$2.5 billion--have been delayed and may not be signed for several weeks. Refinancing terms sketched out in April were still undetermined when talks ended yesterday between representatives of eight major banks and the Turkish Government. New credits also are proving elusive for Turkey; none is likely to be announced at the informal Organization for Economic Cooperation and Development consortium meeting that begins today in Paris, and private banks probably will provide \$200 million at most in the next few months.

25X1 [] The refinancing stalemate may mean that the eight banks could not persuade enough of the smaller banks involved--more than 200--to accept the terms the eight had approved.

Turkey may also have been asking for more lenient terms. A solution apparently will require several more weeks of difficult international bargaining; new private credits will be delayed until the refinancing has been completed.

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[] Turkey will probably ask for, but not obtain, re-scheduling of privately held overdue trade credits and a resumption of official export credits at the OECD consortium meeting. Consortium participants believe their governments already have extended themselves as much as possible on Turkey's behalf.

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[] An ad hoc group of the country's OECD creditors re-scheduled about \$500 million in government-guaranteed trade arrears last month. The OECD group also agreed to reschedule \$600 million worth of other obligations, such as debt service. Members, moreover, are faced with domestic legislative constraints on foreign lending.

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[] Although Turkey has resumed regular import payments as a result of a disbursement by the International Monetary Fund in May, an additional \$1 billion will be needed to cover this year's expected basic balance-of-payments deficit. Current rescheduling agreements give the country no more than three years in which to strengthen its balance of payments enough to cover annual debt repayments of \$1 billion or more, and there remains \$2 billion in short-term debt for which no specific rescheduling plans exist. []

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CEMA: Heads of Government Meet

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[] *The heads of government of the countries belonging to the Soviet-led Council for Mutual Economic Assistance begin their annual meeting today in Bucharest. They will discuss long-term plans to coordinate production in key sectors of their countries' economies, review relations with non-CEMA members, and perhaps discuss a Soviet proposal to revise CEMA voting procedures.*

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[] The participants will probably endorse three longterm target programs approved at a meeting of CEMA's Executive Committee last month. These programs, which are expected to

run for 10- to 15-year periods, deal with production and delivery of fuel, energy, raw materials, and basic food products and with specialization and cooperation in the machine-building industry.

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[] The program on fuel, energy, and raw materials has probably been the most difficult one to hammer out. The Soviets may still be unwilling to provide specific figures on oil exports to CEMA partners until five-year bilateral trade protocols are negotiated for the 1981-85 period. These negotiations are unlikely to begin for at least another year.

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[] The participants will review the slow pace of discussions between CEMA and the European Community on establishing official ties between the two organizations. They may endorse measures to expand CEMA contacts with Vietnam, Laos, and Angola.

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[] The Soviet proposal to require only majority approval instead of unanimity in CEMA votes on nonpolicy issues would make it easier to implement projects that have won the general agreement of interested parties. The change would not be nearly as politically sensitive as a blanket change in CEMA's voting rules, but the Romanians and perhaps others may still want to avoid situations in which they must abide by a majority vote.

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BRIEFS

Portugal-Angola

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[] Presidents Eanes of Portugal and Neto of Angola signed an agreement in Guinea-Bissau yesterday after three days of talks to improve strained bilateral relations. The meeting was scheduled to end on Sunday, but the leaders decided to continue their discussions for an extra day.

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[] In addition to pledges of increased economic, scientific, and cultural ties, the agreement also allows Angolan nationals who fled to Portugal during the bitter postindependence civil war to return to Angola whenever they wish. Further discussions will be held on the release of Portuguese under detention in Angola, some of whom were arrested before the end of the colonial period. Neto and Eanes also voiced support for

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independence for Namibia and Zimbabwe in accord with resolutions of the UN and the Organization of African Unity.

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[redacted] Eanes said at the close of the session that he and Neto did not expect their meeting to have immediate specific results.

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China-Vietnam

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[REDACTED] //Disagreement over procedural matters continues to delay Peking's evacuation of ethnic Chinese from Vietnam. Each side blames the other for the stalemate.

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